

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
The HELP II Program
EXECUTIVE SUMMARY

| <p>Applicant: Clinica de Salud del Valle de Salinas (“CSVs”) 440 Airport Boulevard Salinas, California 93905 Monterey County</p> <p>Project Site: 122 West San Antonio Avenue, King City, California</p> <p>Facility Type: Community Clinic</p> | <p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: October 31, 2002</p> <p>Resolution Number: HII-129</p> | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--|------------------|--|--------------------|--------------|-----------|--------------------|-----------|------------------|--------------|-----------------|--------------|-----------------------------|----------------|-----|--------------------|---------------|------------------|------------|------------------|-----------|---------------------------|--------------------|-------------|
| <p>Use of Loan Proceeds: Loan proceeds will be used to construct a new clinic to consolidate dental and medical facilities into one building.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No</p> <p>Existing Borrower: Yes, 1989 Series B Revenue Bonds</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: CSVs shows significant financial improvement in 2001 and interim results appear even stronger. Although the organization is leveraged, the balance sheet is otherwise healthy with improving liquidity and net assets of nearly \$2.3 million.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Borrower’s Funds | 400,000 | Financing costs | <u>7,000</u> | | | | | | | | | | | | | | | | | | | | | | |
| NCB Development Corporation | <u>124,215</u> | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Sources | <u>\$924,215</u> | Total Uses | <u>\$924,215</u> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Clinica de Salud del Valle de Salinas in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions and Cal-Mortgage’s consent to incur additional indebtedness.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |

STAFF SUMMARY AND RECOMMENDATION
Clinica de Salud del Valle de Salinas (“CSVS”)

October 31, 2002
Resolution Number: HII-129

I. PURPOSE OF FINANCING: CSVS intends to construct a new facility to consolidate its medical and dental service programs into a single health center location. When CSVS originally opened its King City Health Center, dental and medical services were located at the same site. Because of growth in each program, CSVS separated its services into two locations. The medical services were transferred to a facility leased from the George Mee Memorial Hospital and dental services remained in the facility owned by CSVS. The long-term lease at the hospital will expire in October 2003, forcing CSVS to relocate or pay a much higher monthly lease payment.

Construction.....**\$608,800**

Presently, the King City dental clinic is housed in a building that is approximately 2,340 square feet. Medical services are in a 2,500 square foot office that is leased from the district hospital. The proposed new clinic will be nearly 5,000 square feet. It will be constructed on a parcel that is approximately 31,050 square feet and provides additional space for future expansion to accommodate the clinic’s anticipated growth.

The land was purchased in June 2002 for \$195,000 using Cedillo-Alarcón grant funds. Approximately 44% of the total cost of the construction project will be funded with the proposed HELP II loan. Remaining project funds will be provided by the applicant through the sale of its King City dental clinic building in addition to a loan from NCB Development Corporation for the balance. The current assessed value of the existing facility is \$400,000. Following the sale, CSVS will lease back the facility until construction is complete. The expected completion date of the project is June 2003.

Site work.....**194,650**

Site work consists of grading, paving, lighting, masonry, concrete, and utilities.

Architect and other fees..... **113,765**

Financing Costs **7,000**

Authority Closing Fee..... \$5,000
Estimated Closing Costs 2,000

Total.....**\$924,215**

Financing structure:

- 15-year loan term, fully amortized.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of approximately \$33,144).
- Total interest payments of approximately \$97,219.
- Combined loan to value ratio must not exceed 95%.
- First Deed of Trust on the property located at 122 West San Antonio Avenue, King City, CA.
- Subordinate lien on corporate gross revenues, second to Cal-Mortgage Insurance.
- Verification of receipt of all permits necessary to begin construction.
- Verification that Guaranteed Maximum Price Construction Contract is in place.

FINANCIAL STATEMENTS AND ANALYSIS:

CLINICA DE SALUD DEL VALLE SALINAS

Statement of Activities (Unrestricted)

| | Twelve Months | For the Year Ended June 30, | | |
|--|---------------------------------------|-----------------------------|---------------------|---------------------|
| | Ended June 30, 2002 (Unaudited) | 2001 | 2000 | 1999 |
| Revenues: | | | | |
| Third party payors, net | \$ 3,992,591 | \$ 3,666,764 | \$ 3,360,389 | \$ 3,261,078 |
| Private patient revenue, net | 2,667,910 | 2,498,398 | 2,599,332 | 2,936,110 |
| Hospital inpatient revenue | 902,544 | 568,406 | 479,755 | 368,089 |
| Federal grants | 1,568,842 | 1,225,964 | 1,092,570 | 890,486 |
| State grants | 2,063,664 | 1,259,474 | 1,062,191 | 614,033 |
| Interest income | 7,356 | 7,333 | 4,253 | 8,158 |
| Other income | 83,785 | 11,025 | 42,602 | 23,361 |
| Total revenues | <u>11,286,692</u> | <u>9,237,364</u> | <u>8,641,092</u> | <u>8,101,315</u> |
| Expenses: | | | | |
| Salaries and benefits | 7,056,403 | 6,222,574 | 5,662,678 | 5,276,839 |
| Medical consultants | 283,124 | 199,338 | 370,232 | 332,859 |
| Outside lab | 115,977 | 105,957 | 116,003 | 159,053 |
| Consumable supplies | 655,235 | 565,954 | 603,091 | 740,980 |
| Utilities | 72,954 | 71,562 | 79,386 | 86,679 |
| Depreciation | 221,795 | 207,293 | 202,249 | 202,238 |
| Insurance | 70,143 | 144,688 | 114,152 | 112,398 |
| Travel | 30,589 | 31,384 | 40,737 | 43,372 |
| Bad Debts | 229,500 | 242,225 | 240,000 | 30,000 |
| Telephone/fax | 227,339 | 213,339 | 192,065 | 172,719 |
| Pharmacy | 102,459 | 25,108 | 44,106 | 73,729 |
| Publication/printing | 189,670 | 143,569 | 177,158 | 185,281 |
| Interest expense | 167,302 | 249,299 | 199,188 | 121,187 |
| Repairs and maintenance | 393,287 | 358,887 | 280,630 | 246,679 |
| Other operating costs | 1,261,426 | 301,092 | 382,263 | 371,029 |
| Total Expenses | <u>11,077,203</u> | <u>9,082,269</u> | <u>8,703,938</u> | <u>8,155,042</u> |
| Increase in unrestricted net assets | 209,489 | 155,095 | (62,846) | (53,727) |
| UNRESTRICTED NET ASSETS, BEGINNING OF YEAR | 1,773,713 | 1,661,733 | 1,663,105 | 2,429,292 |
| Prior period adjustment* | 308,045 | (43,115) | 61,474 | (712,460) |
| UNRESTRICTED NET ASSETS, END OF YEAR | <u>\$ 2,291,247</u> | <u>\$ 1,773,713</u> | <u>\$ 1,661,733</u> | <u>\$ 1,663,105</u> |

*Adjustments were made to net assets to correct for prior years' overstatement of accounts receivable and to adjust for prior years' payable to the State of California.

CLINICA DE SALUD DEL VALLE SALINAS

Statement of Financial Position

| | <u>As of June 30,</u> | | <u>As of June 30,</u> | |
|---|-----------------------|---------------------|-----------------------|---------------------|
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| | <u>(Unaudited)</u> | | | |
| Assets | | | | |
| Cash and Cash Equivalents | \$ 54,828 | \$ 98,803 | \$ (90,633) | \$ (66,944) |
| Accounts Receivable | 1,694,383 | 1,573,808 | 1,807,735 | 1,299,212 |
| Grants Receivable | 739,446 | 301,365 | 293,459 | 107,889 |
| Inventory | 143,682 | 143,682 | 142,230 | 107,313 |
| Prepaid expenses and other current assets | 325,780 | 331,038 | 388,398 | 295,396 |
| Property and equipment, net | <u>2,704,666</u> | <u>2,795,643</u> | <u>2,827,705</u> | <u>2,719,855</u> |
| Total Assets | <u>\$ 5,662,785</u> | <u>\$ 5,244,339</u> | <u>\$ 5,368,894</u> | <u>\$ 4,462,721</u> |
| Liabilities and Net Assets | | | | |
| Accounts payable | \$ 161,494 | \$ 202,221 | \$ 408,007 | \$ 115,767 |
| Contracts Payable | 15,200 | 151,400 | 31,417 | - |
| Accrued Expenditures | 260,832 | 151,418 | 129,874 | 111,525 |
| Unearned revenue | 238,441 | 70,000 | - | - |
| Bank Line of Credit | 537,891 | 583,347 | 642,467 | 215,000 |
| Cost Reports Payable | 312,822 | 367,341 | 448,810 | 532,324 |
| Note Payable | 137,499 | 194,891 | 256,586 | - |
| Bonds Payable | <u>1,707,359</u> | <u>1,750,008</u> | <u>1,790,000</u> | <u>1,825,000</u> |
| Total Liabilities | 3,371,538 | 3,470,626 | 3,707,161 | 2,799,616 |
| Net Assets: | | | | |
| Unrestricted Net Assets | <u>2,291,247</u> | <u>1,773,713</u> | <u>1,661,733</u> | <u>1,663,105</u> |
| Total Liabilities and Net Assets | <u>\$ 5,662,785</u> | <u>\$ 5,244,339</u> | <u>\$ 5,368,894</u> | <u>\$ 4,462,721</u> |

Financial Ratios:

| | <u>Proforma (a)</u> | | | |
|----------------------------------|----------------------|-------------|-------------|-------------|
| | <u>FYE June 2001</u> | | | |
| Debt Service Coverage (x) | <u>1.41</u> | <u>1.65</u> | <u>1.30</u> | <u>1.48</u> |
| Debt/Unrestricted Net Assets (x) | <u>1.60</u> | <u>1.30</u> | <u>1.50</u> | <u>1.42</u> |
| Margin (%) | | <u>2%</u> | <u>-1%</u> | <u>-1%</u> |
| Current Ratio (x) | | <u>2.11</u> | <u>2.10</u> | <u>3.94</u> |

(a) Recalculates June 2001 audited results to include the impact of this proposed financing and the pending NCB Bank loan in the amount of \$124,215.

Financial Discussion:

CSVS shows significant financial improvement in 2001 and interim results appear even stronger.

CSVS operated at a slight deficit in fiscal 1999 and 2000. However, 2001 reflects a profit with an increase in unrestricted net assets to more than \$155,000, up from (\$62,846). Interim results support the positive trend continuing in fiscal 2002, as shown by another increase of 35% in unrestricted net assets. Once the proposed clinic is constructed for its King City Health Centers, management projects increased patient visits generating additional revenues and net income.

By consolidating the King City Health Centers medical and dental services into one building, CSVS anticipates achieving substantial savings. Combining both clinics will save money in personnel and overhead due to the elimination of duplicate staffing functions, and the removal of an expensive monthly lease cost for its medical services clinic currently located at the district hospital. Additionally, having one location will benefit the farmworker population since many families lack transportation and children of the same family often have medical and dental appointments on the same day. Finally, the new clinic location will accommodate future growth and expansion as well.

CSVS attributes the weaker performance in the earlier years to its difficulties in recruiting dentists. In 2001, the organization received a \$75,000 Federal Grant to increase the salary of its existing dentists. In addition, CSVS recruited another dentist in 2001, and four dentists in 2002. Although the demand for dental services has continued to be strong, until recently, CSVS lacked enough dentists to provide dental care. Going forward, management anticipates increases in dental services, which will generate additional revenues offsetting the costs associated with hiring more dentists.

CSVS is making additional efforts to strengthen the financial position of the corporation. The management team of each clinic regularly analyzes daily productivity reports of Charges, Adjustments & Payments and Monthly Financial Statements to maintain better cost controls and improve the collection rate. Further, CSVS is in the process of obtaining a new software package for the Dental Department that will improve the billing system.

Although the organization is leveraged, the balance sheet is otherwise healthy with improving liquidity and net assets of nearly \$2.3 million.

CSVS suffered negative cash flows in 1999 and 2000 with improved liquidity thereafter. It has maintained a good current ratio, which is at 2.11x for the most recent fiscal year. The balance sheet reflects growing net assets with nearly \$2.3 million (unaudited) for fiscal 2002.

The debt-to-unrestricted net assets ratio has consistently been above 1.0x over the review period, with the proforma ratio at 1.60x, indicating that CSVS is leveraged. Nonetheless, the proforma debt service coverage remains adequate at 1.41x and management anticipates meeting all of its additional debt obligations.

III. UTILIZATION STATISTICS:

| <u>Type of Service</u> | <u>Fiscal Year Ending June 30,</u> | | | |
|------------------------|------------------------------------|--------------------|--------------------|--------------------|
| | <u>2001-2002</u> | <u>2000-2001</u> | <u>1999-2000</u> | <u>1998-1999</u> |
| | <u># of Visits</u> | <u># of Visits</u> | <u># of Visits</u> | <u># of Visits</u> |
| Medical | 82,614 | 73,938 | 73,056 | 74,253 |
| Dental | 10,024 | 13,498 | 20,897 | 22,777 |

IV. ORGANIZATION:

Background: CSVS is a community and migrant health center program that has been in existence since 1980. CSVS was originally established as a free clinic for farm workers in the Salinas Valley. Although it began as a modest small clinic operating a few hours per week, CSVS has since grown to a multi-site network of comprehensive primary care centers that cover the entire Salinas Valley. During its first year, CSVS had 5,000 medical encounters, and it currently generates over 85,000 medical and dental encounters per year. Migrant and seasonal farm workers constitute 76 percent of the current user base (25,130 patients in calendar year 2000).

The South Monterey County area is designated as a Medically Underserved Area (MUA). It is also designated as a primary medical care health professional shortage area as well as a dental health professional shortage area.

Licenses: CSVS operates eight community clinics in Monterey County, which are licensed through the State Department of Health Services.

Competition: Aside from the George L. Mee Memorial Hospital, CSVS's King City Health Center is the only other facility operating in the south county area. Although CSVS and the hospital compete for an overlapping pool of ambulatory patients, the two entities have established a cooperative working relationship. CSVS refers its south county prenatal patients to the hospital for labor and delivery services as well as patients that need specialty and inpatient care. The growing number of residents allow CSVS and the George L. Mee Memorial Hospital to serve the community.

V. OUTSTANDING DEBT:

| <u>Description</u> | <u>Original Amount</u> | <u>Amount Outstanding As of 06/30/02 (a)</u> (Unaudited) | <u>Estimated Amount Outstanding After Proposed Financing</u> |
|---|------------------------|---|--|
| Existing: | | | |
| CHFFA Bond, Series 1989B | \$580,000 | \$470,000 | \$470,000 |
| Local Medical Facilities Financing Authority, 1992 COPs | 1,450,000 | 1,237,350 | 1,237,350 |
| Pending: | | | |
| NCB Dev. Corp. Loan, 2002 | | N/A | 124,215 |
| Proposed: | | | |
| CHFFA HELP II Loan, 2002 | | N/A | 400,000 |
| TOTAL DEBT | | <u>\$1,707,350</u> | <u>\$2,231,565</u> |

(a) Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

The interest, lease, and operational savings resulting from this proposed financing contribute to CSVS's long-term viability and provide additional services to clients unable to pay. In addition, patients will have the convenience of both medical and dental services being in a single location reducing the transportation issues facing many of the families.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Clinica de Salud del Valle de Salinas in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions and Cal-Mortgage's consent to incur additional indebtedness.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

**The HELP II Program
Resolution Number HII-129**

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II PROGRAM AGREEMENTS WITH CERTAIN
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority has previously established a HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring certain equipment or constructing certain capital improvements (the “Project”) as authorized by the Act;

WHEREAS, **Clinica de Salud del Valle de Salinas**, (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the financing of the Project, and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, final approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower, in the amount of **\$400,000** for a term not to exceed **15 years** to finance the construction of a new clinic as described in the application filed with the Authority, but solely to the extent there are available proceeds of the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. Consent from Cal-Mortgage for the Borrower to incur additional indebtedness;
2. First Deed of Trust on the property located at 122 West San Antonio Avenue, King City, CA;
3. Verification of the borrower equity;
4. Verification of a property appraisal satisfactory to the Authority;
5. Second position lien on corporate gross revenues;
6. Verification of Guaranteed Maximum Price Construction Contract is in place; and
7. Verification of receipt of all permits necessary to begin construction.

Section 2. The Executive Director and the Deputy Executive Director are each hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan approved pursuant to Section 1 hereof, and to approve any changes in the Project described in the application submitted to the Authority as said officers shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority) and provided further that the loan continues to meet the Authority's guidelines for HELP II loans. Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding, or than the Executive Director or Deputy Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director or Deputy Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower approved in Section 1. The Executive Director or Deputy Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower in Section 1 any and all documents necessary to complete the transfer of funds.

Section 4. The Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. Either the Executive Director or the Deputy Executive Director of the Authority is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem necessary or advisable in order to effectuate the purposes of this Resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 6. This resolution expires one year from the date approved.

Date Approved: _____ October 31, 2002 _____